

■ U.S.-Russia Commercial Energy Summit

Managing Strategic Resources

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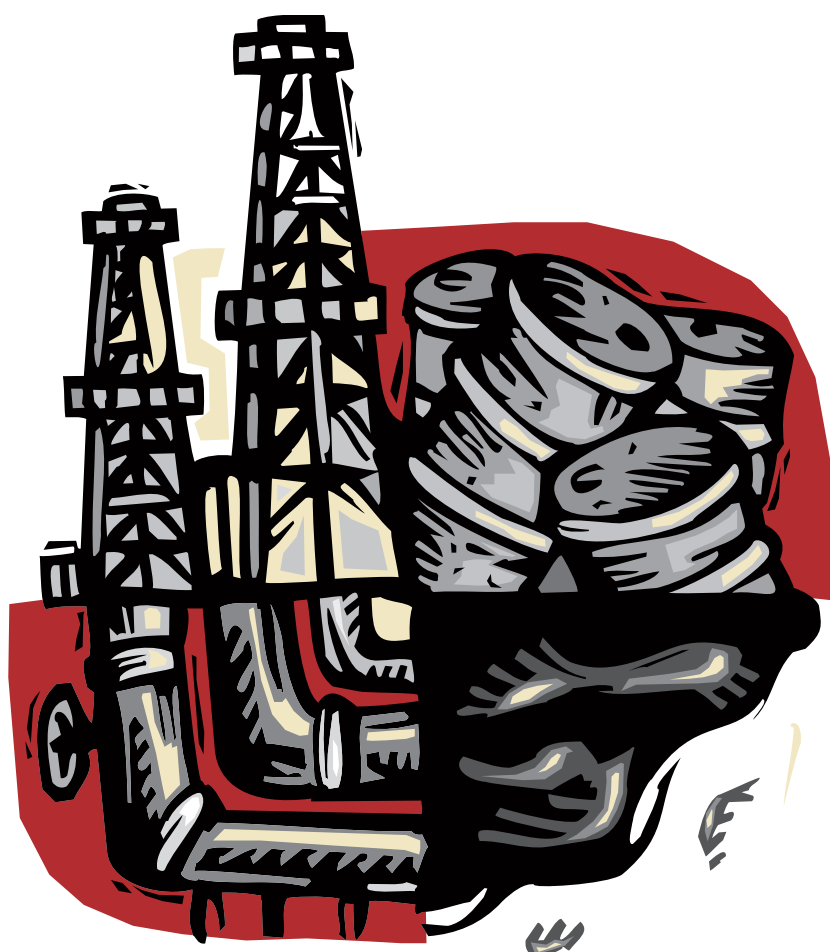
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In May 2002, Presidents Bush and Putin launched a new energy dialogue to enhance global energy supply and security, as well as promote U.S.-Russian cooperation in developing energy resources.

A major initiative of the new energy dialogue was the first U.S.-Russia Commercial Energy Summit, held in Houston, Texas, in October 2002, which was co-chaired by U.S. Secretary of Commerce Donald Evans, U.S. Secretary of Energy Spencer Abraham, Russian Minister of Energy Igor Yusufov, and Russian Minister of Trade and Economic Development German Gref. More than 450 U.S. and Russian senior corporate and government officials participated in the event.

On September 22–23, 2003, the second U.S.-Russia Commercial Energy Summit took place in St. Petersburg, Russia, again co-chaired by Secretaries Evans and Abraham and Ministers Gref and Yusufov. More than 500 representatives from U.S. and Russian government agencies and energy industries took part in the summit to discuss expanding partnerships and new

opportunities for investments between the energy industries of both countries. At this summit, participants explored new areas of cooperation beyond oil and gas, such as electric power, gas development, and alternative energy sources. Participants also discussed potential new energy export routes, including an oil terminal and liquefied natural gas terminal in Murmansk.



■ RUSSIAN ENERGY SECTOR

Russia is currently the world's top energy producer, when total production of both oil and natural gas is considered. Russia's proven oil reserves total about 60 billion barrels, and the Russian government estimates that production of oil in 2003 will average 8.2 million barrels per day (bpd). Russia's 1,680 trillion cubic



feet (tcf) of proven gas reserves make up about 30 percent of the world's gas resources. Russia's 1,680 trillion cubic feet (tcf) of proven gas reserves make up about 30 percent of the world's gas resources.

Although there has been limited U.S. involvement thus far in working in Russia's upstream oil and gas sector (except for a few joint ventures, and the Sakhalin-I project in the Russian Far East), Russia is currently the fifth-largest export market for U.S.-made oil and gas field equipment. In 2002, U.S. exports of oil and gas field machinery to Russia totaled \$328 million, an increase of 16 percent from 2001.

Russia's oil exports in 2002 totaled more than 5 million bpd, and over the past year the United States has become an important export destination. In August 2003, Russia was exporting an average of 288,000 bpd of crude oil to the United States, making it the country's eighth-largest supplier of crude oil to the United States. But despite these impressive statistics, one of the main problems facing oil producers is an inability to export oil due to quotas imposed

by the government and a lack of export pipeline capacity. The Russian government and industry leaders are considering ways to address the latter problem through several new initiatives, including the proposed oil and gas terminals in Murmansk, oil pipelines to China and Japan, and more.

Russia is also seeking to attract billions of dollars of investment over the next decade to rehabilitate and modernize its deteriorating electric power system. With the goal of attracting this investment, Russia's electric power monopoly, Unified Energy Systems (UES) has put forward an ambitious restructuring plan, which after years of discussion and debate has finally been approved by the government. Over a period of several years, the plan will allow UES to spin off its generating assets into independent companies, create a competitive wholesale market for electricity, set up a new federal grid company and a new system operator, and abolish limits on foreign ownership in the electric power sector.

ENERGY SUMMIT HIGHLIGHTS

The four summit co-chairs signed a joint statement affirming the importance of energy security, energy price stability, and environmentally oriented approaches to energy resource development. The statement calls upon the U.S. and Russian governments to work together to establish an energy investment climate that is based upon the rule of law and transparent business practices, and to work to expand Russia's energy export capacity through the improvement of existing Russian pipeline infrastructure as well as new projects. The government officials from the United States and Russia also agreed to establish a joint program on oil spill prevention and response. In addition, the U.S. Overseas Private Investment Corporation signed an agreement with Lukoil to provide \$130 million in loan guarantees for the construction of an oil products export terminal near St. Petersburg.

U.S.-RUSSIA COMMERCIAL ENERGY DIALOGUE

At the summit, the U.S.-Russia Commercial Energy Dialogue (CED) issued a report on ways the governments of the United States and Russia can promote more cooperation between the two countries' energy industries.

The report put forward recommendations, which included

- Revising Russia's subsoil law with the input of energy companies;
- Reforming Russia's licensing system for exploration and development;
- Establishing a special tax regime for technically difficult and expensive oil and gas projects in Russia;
- Defining the rights of investors in private pipelines in Russia;
- Measures to protect small and medium-sized enterprises in Russia's oil and gas sector; and
- Harmonizing Russian standards for energy equipment and services with international standards.

The CED was established in October 2002 at the first U.S.-Russia Commercial Energy Summit in Houston. It is a private sector-led group of U.S. and Russian energy companies, co-chaired by the American Chamber of Commerce in Russia and the Russian Union of Industrialists and Entrepreneurs.

BUSINESS DEVELOPMENT MISSION

In conjunction with the energy summit, Secretary Evans led a 13-member business development mission to St. Petersburg and Moscow, September 21–25, 2003. Trade mission members participated in the summit, met with the heads of several major Russian oil and gas companies, and had individual meetings with potential customers and partners. See page 23 for more information. ■